

Virginian Hotel LLC

March 2, 2015

Re: Developer response to opposing statements

Dear Kim and Marjette,

In preparation of the EDA's meeting on Wednesday we felt it was important to summarize the comments we made over the past month in response to various statements from people who oppose the proposal we presented to redevelop The Virginian. Please share as you feel appropriate.

- The security on the loans is most significantly placed in the fact that this project will be redeveloped as a luxury hotel and event space with food service. It will not operate in any other capacity under its current design. As long as the property is redeveloped as a hotel it will operate as one, and the various taxes associated with it will be collected and the loans repaid. This alone is security for the City and the EDA and should insure that this property will generate significant tax revenue long after the loans are paid off.
- The Project will have no more than \$10 mm of debt on the property when we go to permanent financing. We assumed for tax revenue projections that the property will be tax assessed for \$16 mm at completion. Based on this assessment we are projecting a Loan to Value Ratio (LTV) of 62.5%. Based on our projected Net Operating Income and Debt Service we anticipate a Debt Service Coverage Ratio (DSCR) at stabilization of 2. Both our projected LTV and DSCR exceed lender underwriting requirements. Our combined equity from cash and historic tax credits will be at least \$10 mm and we are prepared and capable of leaving more equity in the deal if we feel it is necessary.
- Due to this being our first hotel development, we made a decision in early fall 2014 to engage several hotel operators about working with us on the project. After a lot of consideration we chose Cornerstone Hospitality to be part of our development team and to handle long term operations for 2 primary reasons. The first being that they have maintained the Craddock Terry Hotel as the top rated hotel in Lynchburg for several years. The second being that we feel strongly that working closely with other downtown hotel operators and owners will best serve our project and the interests of the market. This was echoed in a conversation I had with the owners of the downtown Holiday Inn just last week. We feel very confident in our partnership with Cornerstone and believe we have aligned our interests strategically to insure the greatest chance of success for the project.
- The equity partners in this project have more than 75 years combined experience in the construction and real estate industries. Collectively, we own more than \$75 mm in productive real estate assets, have been responsible for successful real estate development projects in excess of \$200 mm and have significant net worth. 3 lenders are proposing to finance this project for us and one of the top hospitality companies in the world has endorsed it (more to come later).

- We develop, buy and invest in real estate for the long term. We are not short sighted by fees. We pay ourselves well below industry averages, and we are able to perform the work in a manner that is faster, better designed and less expensive than our competitors.
- Our market study shows an increase in occupied room nights over the 2013-2018 forecast period of 101,040 (see memo from S. Patz & Associates to Jason Ruiter with the News & Advance dated 2/17/15). Our statement to Council of 80,000 was derived assuming the projected average annual increase in room nights and a fall 2017 opening. For The Virginian, we project 25,162 rooms sold in year 1, 27,687 in year 2, 28,178 in year 3, 28,965 in year 4 and 29,764 in year 5. These numbers are well within the market's projected growth and give room for additional inventory to come into the market. We conservatively project average daily rates from \$135 in year 1 to \$146 in year 5. These rates and the occupancy projections are below The Craddock Terry, which is where we will likely be priced and is within range of the rates and occupancy levels for the newest hotel products in the market, yet The Virginian will offer an experience consistent with hotels that have average daily rates of \$250+ in many markets. We are being conservative.
- We are aware that other hotels are being planned and/or are under construction. Some will happen. Some will not. Regardless, our analysis anticipates some hotels entering the market and still indicates support for the addition of The Virginian at a 60+ percent occupancy rate in its 1st year. As is the case with any new property that opens up, whether apartments, an office building or a hotel, new supply puts pressure on demand. As long as we avoid a major economic downturn and Lynchburg continues to see sustainable growth, demand should catch up with the supply. We can be successful below 60% occupancy and can afford to wait until demand catches up if the market doesn't grow as well as projected.
- There is only one building like The Virginian. There will be nothing in the market that can provide the same experience and it can be priced competitively. Future projects will likely put short term pressure on those hotels that are existing, but good properties that are operated well should perform long term for the Owners and the City. We believe The Virginian will be one of those properties.
- Stu Patz, President of S. Patz & Associates, did the initial analysis on the market and our project. He is known best for his work in the multi-family arena, but he also does work in the hospitality area as well and he is an expert at analyzing market data. We considered hiring one of the larger consultants, such as HVS or PKF, but ultimately decided on S. Patz due to the trust we have in the firm. They are conservative and most importantly, we trust them to tell us when not to do a deal.
- It is not surprising that one would see a drop in rates and occupancy when new hotels come into the market. Basic economic theory tells us this can happen, but it should stabilize. A look at the past 4 month STR (Smith Travel Research) report will not give you the full picture.
- Some markets are possibly being overbuilt, but we believe it is rooted in the unique economic environment we are in. When interest rates go up and inflation kicks in, the economics for developing anything will change and may make it very difficult to successfully execute projects

for some time. We believe smart investors are thinking ahead and completing projects that make good long term economic sense, knowing that they may have to wait a little bit for demand to catch with supply. Returns may not be as great in the earlier years, but eventually the demand will catch up. Long term, those who get projects completed should benefit.

- Regardless of any statements to the contrary, we believe the market will support the additional rooms over the long term. This should be evidenced by our willingness to take the risk and by the nearly 300 rooms in construction and in various stages of development across the City.

We hope these comments, combined with the revisions we recently offered in the performance agreement, will give the EDA the additional assurance and confidence needed to support our proposal. We are optimistic about the future of Lynchburg and no one can refute that this is a unique opportunity to restore The Virginian back to the gracious hotel that it once was. With approval of the gap financing we are prepared to take a significant risk in a real and meaningful investment that will result in The Virginian Hotel reopening in 2017 as a much improved asset for both the City and the region.

Thank you for your consideration.

Best Regards,

Blair Godsey and George Stanley